STATE OF U.S. EXPORT PROMOTION PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON
ECONOMIC POLICY, TRADE AND ENVIRONMENT

OF THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

MARCH 15, 1993

Printed for the use of the Committee on Foreign Affairs

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STATE OF U.S. EXPORT PROMOTION PROGRAMS

MONDAY, MARCH 15, 1993

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC POLICY,
TRADE AND ENVIRONMENT,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to call, at 2 p.m. in room 2172, Rayburn House Office Building, Hon. Sam Gejdenson (chairman of the subcommittee) presiding.

Mr. GEJDENSON. We meet today to discuss one of the most important responsibilities of the subcommittee: export promotion. And for good reason, as exports create jobs. In my State of Connecticut, for example, exports were directly responsible for 91,000 jobs in the manufacturing sector in 1991, and 68,000 jobs in the service sector. Exports were also indirectly responsible for an estimated 159,000 jobs in the State as a whole. At the national level, one in five U.S. jobs is linked to exporting.

The long-term economic health of this Nation is directly related to our ability to encourage more firms, especially small- and medium-sized firms, to become involved in exporting. It is also linked to our ability to encourage companies that already export to sell more of their products and services overseas.

The good news is that the Federal Government provides a number of resources for exporters seeking assistance on how to sell their products or services overseas. The bad news is that resources are inadequate and do not enable our exporters to compete on a level playing field with their international competitors. In addition, there remains a complicated bureaucracy through which exporters must work their way in order to complete a transaction.

Probably no one has done as much research on this issue as today's witness, Allan Mendelowitz, Director of the International, Energy and Finance Issues within the General Government Division of the General Accounting Office. Dr. Mendelowitz has written a number of studies on this topic and continues to provide Congress with important policy recommendations. I am delighted that Dr. Mendelowitz could attend today's hearing to share his knowledge with Members of our committee. Our new Members should know that Dr. Mendelowitz is an extraordinary resource for Congress, which this committee has relied on on many occasions. He has always done an outstanding job.

In good economic times, helping small- and medium-sized firms export their products is important. In bad economic times, export

assistance is absolutely essential. It is one way that a nation increases its own wealth. I look forward to the discussion that I am sure Dr. Mendelowitz's testimony will generate.

Mr. Roth.

Mr. ROTH. Well, I thank you, Mr. Chairman. Let me join you in welcoming Allan Mendelowitz back to our subcommittee. As head of the Trade Division at GAO, Allan Mendelowitz has produced a series of valuable reports and issues before this subcommittee. Moreover, he has a well-deserved reputation for providing honest, impartial and sensible advice to the Congress.

And Allan, I want you to know I appreciate the hard work that you and your staff have put in in the Trade Division and all the other assistance that you have given to this Congress. We appreciate that a great deal.

In today's hearing we begin an extensive examination of U.S. trade promotion programs. The Federal Government spends nearly $3 billion a year on trade promotion, and we extend another $20 billion in export-related credit and insurance. But as we know from GAO's work over the past 15 months, our export promotion programs are not coordinated within the government. What is worse, our biggest trade competitors in Europe and Asia have more aggressive export promotion programs.

This subcommittee began work more than a year ago to address these weaknesses. Last autumn, we helped enact two bills as a first step, the Export Enhancement Act and the Jobs Through Exports Act. Further steps are needed, and I look forward to working with our chairman and our entire committee to write new legislation in this area during the 103d Congress.

Exporting is a bottom-line business. Either you make the sale or you don't. And for American workers, there is a bottom line, too: Exporting is critical to our economic growth and to our job creation. So my goal is to give American exporters the support they need to meet the competition and to create jobs, good-paying jobs, for our American workers.

Thank you, Mr. Chairman.

Mr. GEJDENSON. Ms. Cantwell.

Ms. CANTWELL. Thank you, Mr. Chairman. I applaud your efforts today to hold this hearing, to give closer examination to our export promotion programs. In the State of the Union address, the President, I think, articulated a vision of where we want to be in the 21st century economy and the fact that having produced highly skilled, high-wage jobs is a critical part of this vision. One of the vital components, I think, is to continue to find new markets for our goods and services abroad, and it is essential that U.S. export promotion programs respond to the ever-changing international landscape facing U.S. companies trying to compete.

In my district, there are many companies already using the programs we will be examining today. And there are some specific concerns that have been brought to my attention by constituents about overall funding access, the technical expertise, and coordination among the various Federal programs. I hope that some of these issues and concerns can be addressed today.

But just as importantly, we must ensure that export promotion programs are serving the most dynamic sectors of our economy,

small- and medium-sized business. Economic development programs learn—need to learn how to reach scale. We have many good programs, but not enough small businesses know that they exist.

I look forward to the hearing and testimony today, and this afternoon, ask the chairman to continue the efforts beyond this hearing to really look at a comprehensive focus of how effective our programs are in reaching scale and in reaching small businesses.

Thank you.

Mr. GEJDENSON. Thank you. Mr. Manzullo.

Mr. MANZULLO. Thank you, Mr. Chairman.

We welcome you here. I have had the opportunity to read through your entire presentation, along with all the exhibits this morning. The area that I represent in Illinois, Winnebago County, is responsible for about one-half of Illinois's exports. It is a huge manufacturing area with 890 factories, and leads the Nation in the tool and die industry.

I am very much interested, and I applaud you for your very candid approach on saying that something has to be done about the present system that is all screwed up among 10 different agencies. I look forward to the opportunity where you can be very specific to come in here with a paring knife and say we can bring down the costs of these programs and make them more effective by utilizing the TPCC, set up last year, which has yet to be effective.

I would be most appreciative during the course of your comments if you could take into consideration the fact that my area is heavily reliant upon exports and is very sensitive to market pressures.

I appreciate that you came here this afternoon.

Mr. GEJDENSON. Thank you. I would like to place into the record at this moment my statement and the statement of Cynthia McKinney, without objection.

[The prepared statements of Mr. Gejdenson and Cynthia McKinney appear in the appendix.]

Mr. GEJDENSON. Mr. Mendelowitz.

STATEMENT OF ALLAN MENDELOWITZ, DIRECTOR OF INTERNATIONAL TRADE AND FINANCE ISSUES, GENERAL GOVERNMENT DIVISION, GENERAL ACCOUNTING OFFICE

Mr. MENDELOWITZ. Thank you very much, Mr. Chairman and Members of the subcommittee. With your permission, I will be happy to make some abbreviated comments and submit my full statement for the record.

Mr. GEJDENSON. Without objection.

Mr. MENDELOWITZ. Our testimony today addresses the need for a governmentwide export promotion strategy and discusses funding of export promotion programs, the delivery of export promotion services, the Export Enhancement Act of 1992, small business access to export promotion programs, the ways in which U.S. export programs compare with those of other countries, and the adequacy of current funding for export promotion.

The U.S. Government devotes significant funds to export promotion. However, the programs are not funded on the basis of any governmentwide strategy or set of priorities. Consequently, taxpayers do not have reasonable assurance that their money is being effectively used to emphasize sectors or programs with the highest

potential return. I think the most dramatic example of that relates to the share of assistance provided to agriculture versus other sectors in the economy.

Agricultural exports represent about 10 percent of U.S. exports, yet if you look at the budget for 1991, agricultural exports accounted for almost three-quarters of the outlays that government agencies made in support of U.S. exports and accounted for about 45 percent of the direct loans and export credit assistance.

The Export Enhancement Act of 1992 incorporated a GAO recommendation for mandating that the Trade Promotional Coordinating Committee, an interagency group created to improve Federal export promotion efforts, to, one, devise a governmentwide strategic plan to promote exports and, two, propose to the President an annual unified Federal budget for export promotion that would be consistent with priorities established in the strategic plan. However, there has not been sufficient opportunity for the TPCC to implement its new mandate.

Under the act, the strategic plan is supposed to be completed and delivered to the Congress by September 30, 1993. That gives the administration slightly more than 6 months. I would strongly urge that Secretary Brown, as chairman of the TPCC, give high priority to this mandate, because there really is not a lot of time left; and if this process is going to impact on the funding proposals for different programs for the fiscal year 1995 budget, they have really got to meet the deadline established by the act.

Small and medium-sized firms face barriers to exporting, including limited access to Federal export promotion programs and export financing. In a previous report, we proposed a "one-stop shop" pilot program for partially integrating the delivery in the field of Federal export promotion programs. One-stop shops should be able to provide at a single location a full range of export promotion assistance, and such a program would be especially beneficial to small- and medium-sized firms.

I can't stress enough the importance of these kinds of pilot efforts. If you were to ask me what it is that small- or medium-sized firms need in the way of assistance, I would say they need to have access to good market information, they need to have access to technical assistance and counseling, they need to have access to the available government export credit programs. If you ask me if there is anyone out there who can provide all of those things at one location, the answer is no.

You have the Commerce Department with its district offices, which has focused its energies and efforts in identifying who its customers should be and what kind of assistance its customer needs; and it has done a good job of identifying the technical counseling and assistance that it needs to provide, but it has very limited resources and no access to export credit programs.

The Eximbank has a reasonable amount of resources, has technical competency on the part of its staff, but it is a very small agency with virtually no outreach capability.

And then, third, you have the Small Business Administration with a large field structure for delivery of services, a large amount of resources, both in terms of operating budget and available credit

programs, but its staff lacks expertise in export assistance, and its programs have been very little utilized to provide export assistance.

So we proposed a pilot project that would bring together basically what all these three agencies have to offer in one location; and we think it can be done without increasing expenditures in any way.

With respect to the export promotion programs of other countries, the export promotion programs of four major European competitor countries may give those countries' exporters an advantage over U.S. exporters. For example, European programs are less fragmented and generally offer more financial incentives and targeted services than the United States does. The one country which has less government funding as a percentage of actual exports, for example, is Germany. But Germany has a very highly developed system of export assistance provided through its chambers of commerce; and the chambers of commerce in return receive mandatory contributions from member companies. So while the government itself doesn't devote that much attention and effort to the area, this chamber of commerce system, for which companies, in effect, are taxed to fund their export activities, provides a substantial amount of assistance.

Finally, we believe that the taxpayer and the Congress need better assurance that the current level of export funding is being effectively used before any additional resources are committed to the area. When the mandated governmentwide strategy for export promotion has been completed and funding has been reallocated according to the priorities established in the strategic plan, I believe Congress will be in a better position to judge the need for additional funding for any of the programs.

Thank you.

[The prepared statement of Mr. Mendelowitz appears in the appendix.]

Mr. GEJDENSON. Thank you. Let me start with a couple of brief and general questions.

First of all, the argument that 10 percent of our exports get 75 percent of our assistance is something that I think a lot of us have heard through the last couple of years, and it obviously seems to make no sense at all. But dollar-for-dollar, product-by-product, are we subsidizing grain, dairy and other agricultural exports in more actual dollars than our major competitors in those areas?

Mr. MENDELOWITZ. I think that you have raised an excellent point: some of those funds are, in effect, really used for trade policy initiatives. The Export Enhancement Program, which accounts for something on the order of $1 billion, provides subsidies for U.S. agricultural products to lower their prices in targeted markets to match the prices of subsidized competitors. And so I think, in fairness, we have to recognize that some of those expenditures are directly tied to the fact that our competitors are subsidizing their exports.

Mr. GEJDENSON. And in an overall sense, is there a lesson in this that we all ought to find some international controls? We have tried this in the past and it has failed. Isn't it possible that from the subsidy end, we can very rapidly just all lose more rather than gain more in this process?

Mr. MENDELOWITZ. I think that that is clearly the rationale behind the initiative that the United States has taken in the Uruguay round of GATT trade negotiations; specifically, calling attention to the fact that subsidizing is an expensive game. Some of our competitors subsidize their agricultural exports, principally the European Community, and we set out to try to bring discipline over those subsidies at the negotiating table. To encourage the Europeans to negotiate more seriously, we tried to take some of the "profit" out of subsidizing by countering their subsidies and taking markets away from them by out-subsidizing them. It is one very expensive game.

Mr. GEJDENSON. Well, I mean, if I look at what we have had on the table historically in trying to compete with the Europeans on subsidizing or going to the negotiating table, we have had so little money on the table that we couldn't be taken seriously.

Are we strong enough at this stage to go to negotiations, if we gave this administration sufficient resources that we could get our competitors' attention, or are we just simply too weak economically at the moment to negotiate that kind of restructuring of how export promotion occurs?

Mr. MENDELOWITZ. No. I think that we have done a pretty effective job of raising the costs to the Europeans of their agricultural subsidy programs, and I think the fact that we have been willing to sustain our initiative in that area has been very important. So I think clearly we have gotten their attention. For whatever reasons, they don't seem to have been able to move off the dime sufficiently to reduce their subsidies. They are under obvious political pressure.

Mr. GEJDENSON. I am going to come back to that later, but let me speak for the moment about the national trade data bank and its goals. In the early Reagan years, it was going to be a commercial enterprise, but when I walk into a manufacturer in my district, I see a product that he makes and it looks like a pretty cost-effective operation. It is the technological end of the spectrum where we ought to be competitive.

I still find it next to impossible to turn to anybody in the Federal Government and ask, "where in the world can I sell my product?" What countries are importing these products at the moment?

Mr. MENDELOWITZ. Well, that is the kind of market information that the U.S. and Foreign Commercial Service develops and the Commerce Department makes available. I don't know whether you are aware of it, but for example, one of the programs they operate is a comparison shopper program. That exporter in your district could walk into the Commerce Department district office and say, this is what I make. Could you tell me what the competitors of this product are selling in any number of specific foreign markets? And for a fairly reasonable fee, the Commerce Department will go out and actually do a market survey and identify what the competitor products are.

Mr. GEJDENSON. So they have to develop that information. Or do they have that information in-house already?

Mr. MENDELOWITZ. Well, it depends. They do have market information available, but when you are talking very specifically about a product, you have to really develop the information specific to

that product. You want to find out what the competitor is selling, what the competitor's product is specifically, how its attributes compare to the product that you are selling, and how its price compares to the price of the product you are selling.

Mr. GEJDENSON. I have always wanted to give every Member of Congress 10 industrial sales opportunities, where we could pick 10 companies or products in our district and then try to do what you have just said; then follow it through, whether with SBA funding or the export funding from other agencies. Every time I try to move a product, it is kind of like finding a new maze to get through; and it seems to me if I had one thing to do, I would have a hand-holder at the Federal level that you could ask this exporter or potential exporter to add a fee and then see if he will walk them through the whole process. I don't know if that is too expensive or not.

Mr. MENDELOWITZ. No. I think what you have described is exactly one of the key problems that we have been trying to focus on, and that is this lack of coherence and this fragmentation in the delivery of services. A U.S. exporter cannot walk into an office and get help from "the government" rather than from individual agencies. I can't stress this enough.

The truth is, SBA, Eximbank, Commerce, all these agencies only have meaning inside the beltway. Once you move outside the beltway, a businessman doesn't care about the agency and doesn't care about the turf of the agency. What the businessman is interested in, if he wants to export, is how can the government help him realize that goal? What are the services available from the government? And because there is no one-stop shop, because there is fragmentation in the delivery of the programs, because the agencies don't work together in a coherent and unified way, a potential exporter cannot walk in and find someone who will take them through the whole process.

Mr. GEJDENSON. If my colleague will indulge me for one moment, back in January I put a press release in the paper that said, I am going to Taiwan; companies that want to export, come with me. We had 14 companies and 18 divisions come with us.

The Taiwan Institute did some advance work for us. One of the companies, a major player, United Technologies did some. We had a gentleman in the district that happened to have economic ties with Taiwan, and he also did some work for us. We walked away with signed contracts, everything from hardwoods—for some of you who have never exported directly—he sold six containers of hardwoods to a company who had done business there, signing a contract. But more importantly, product development, where in the next 6 or 8 months, will know the companies, whether they will sign a contract with Taiwan companies.

It was just amazing. It was a shot in the dark in some ways, although we had a sense of it, by getting everybody focused on one country, we seemed to develop opportunities and, actually, some contracts.

I will come back to you in the next round.

Mr. Roth.

Mr. ROTH. Well, thank you, Mr. Chairman. I think we can all take a page out of your book as far as getting exports and jobs to

our community. So I want to congratulate you on the initiatives that you have taken.

Dr. Mendelowitz, you had mentioned coordination. I have an export conference every year, and last year we had almost 1,000 people there. The big problem that people talked to me about at this export conference was the lack of coordination.

These are all sophisticated business people. For example, they said that there is a real disconnect between the export promotion agencies. They don't seem to be plugged into the export finance programs, and that there is a lack of coordination. So instead of going to one person in the government, and having them take you through the entire scope, it is like a totem pole. You go to one person, and then you yourself have to find the next person and so on.

What do you think about it? Is that an accurate assessment of what is happening?

Mr. MENDELOWITZ. I think that is a very accurate assessment of what is happening. That was why we came up with this very modest proposal for a pilot program to try to create a one-stop shop. What we said was, we have got Eximbank with resources and programs, but no outreach capability, no delivery mechanism; you have got SBA with the delivery mechanism, resources, and programs, but nobody is trained in them, no expertise; and you have got Commerce with a field structure and expertise, but no resources.

So what we proposed was that we could just try—on a very simple, pilot basis, to take some of the loan officers from the Small Business Administration, train them intensively in the export revolving line of credit and other available programs at SBA; train them in the Eximbank programs so that they can represent Eximbank in terms of helping a potential exporter do all the paperwork and put the package together; and then we could locate those folks in the Commerce district offices, so that if a businessman walks in and wants assistance, he has in one place the capability to access all the Federal Government's programs—the technical assistance and counseling and market research from the Commerce Department, as well as someone trained and skilled in the export financing programs who would be able to access SBA and Eximbank programs.

The beauty of this is that it can be done at virtually no cost. There are 12 cities where Commerce's district offices and the Small Business Administration district offices are in the same buildings. I mean, it just takes a little bit of resources for training; and you take somebody and you move them from floor two to floor three, and you can do it.

Mr. ROTH. How did this pilot program work?

Mr. MENDELOWITZ. Well, it is what we propose. Nobody has implemented it yet. It hasn't been implemented, and one of the reasons is, quite honestly, there is a reluctance on the part of agencies to work together. Agencies are very turf conscious. If you work in an agency, you always want to know who is going to rate you, promote you, look after you. And the incentives for working together are very weak and the incentives for not working together are very strong.

What we need is a little push from the oversight committees in the Congress to let the agencies know that this is something worth trying. We need a push from the Trade Promotion Coordinating Committee that the administration thinks it is worth trying.

Mr. ROTH. Well, I think we ought to follow up on that. Maybe that is one of the things that we should be doing on this committee, quite frankly. It is not that we have problems overseas; our problems are right here in Washington between the agencies. Maybe this would be a good proposal for us to consider in this particular area and see what we could do to improve things.

You have given us something there to really chew on and to measure our own success and our own work by. So I appreciate your suggestion.

Let me ask you, where are our competitors outflanking us? You have studied what they are doing. What are they doing that we are not doing? How are they outflanking us, basically?

Mr. MENDELOWITZ. I think that the countries we looked at generally tended to provide a higher level of support for their export assistance programs.

Mr. ROTH. You mean the money?

Mr. MENDELOWITZ. Money, yes.

Secondly, the programs tended to be less fragmented. Either there were single organizations that handled most of the programs like in France, or at least there was a strategic plan that guided what two or three different agencies did, as is the case in the United Kingdom.

We are playing catch-up, both in terms of trying to bring some coherence and reduce the fragmentation in our efforts, and I think we are playing catch-up in terms of the amount of resources that we commit to the area.

Let me just give you an example. If you are an agricultural exporter and you want to participate in a trade fair—and in certain countries, like many in Europe, trade fairs are a very important part of the commercial structure and the commercial system—basically, part of your cost of participating in an agriculture-sponsored trade fair is underwritten by the Department of Agriculture, through its programs.

If you are a manufacturing exporter and you want to participate in a trade fair overseas, you have to pay the entire cost yourself.

I am not making a case for or against a specific subsidy, but I think that this example highlights the types of questions that the TPCC and the strategic plan have to come to grips with: Why is it that an agriculture exporter gets a subsidy to go to a trade fair and a manufacturing exporter doesn't? If I sell some processed food, I get a subsidy for having a booth and advertising my product at a foreign fair; if I make a widget or a black box, I don't.

Mr. ROTH. Well, Dr. Mendelowitz, my time is up. I am going to ask a question, and if you have a chance to answer later, I would appreciate it.

In my experience in working with export controls, we always come down to the same problem, we are too fragmented with too many agencies, and nobody giving a yes or no answer. It just keeps going in a big circle.

Maybe it is time for us to bring all of our export under one umbrella, under one agency. Maybe we need an agency dealing just with exports and pull all of the decisionmaking under one umbrella; and if you have time, I would appreciate your answer, because I know you have given this a lot of thought.

Thank you, Mr. Chairman.

Ms. CANTWELL [presiding]. Thank you, Mr. Roth.

Mr. Mendelowitz, in your testimony you mentioned this European example of using chambers of commerce and others for information about export promotion; and I guess my comments relate to the fact that even if we get a centralized Federal office, just as if we had gotten a centralized State office on export promotion, the bottom line is that there are thousands of businesses that don't know that those programs exist and may never walk through the door to find out that they exist.

So in looking at the scale of our programs, i.e., how much we are really reaching businesses, are there innovative ways in which you think that we can better explain to businesses the crucial nature of increasing exports, the fact that they may not be exporters now, but they are competing in U.S. markets against foreign products? And if they aren't competing in foreign markets, with our products, then we are eventually going to lose out.

How do we communicate that? And would you entertain such a notion as the Europeans have done on actually giving money to local infrastructure groups like chambers of commerce who speak to businesses on a broader scale to get that word out, or how would you propose we do that?

Mr. MENDELOWITZ. The problem that you have raised has been an historic problem in the United States. The U.S. market has been so large and so rich and so deep that U.S. businesses historically, except for the very largest ones, did not have to think about exporting. If you asked a businessman why he didn't sell in Paris, he would say, "Paris, I haven't sold in Peoria yet."

There is a lot of inertia in the U.S. community, in the business community, with respect to exporting, so clearly, anything we can do to raise export awareness would be helpful and would be valuable.

I must say that over the past 10 years, because of the internationalization of the U.S. economy, which has taken place at an unprecedented rate, the extent of import penetration, the internationalization of capital markets, I think that American business is being forced to face up to the fact that whether they choose to sell in Paris or not, they have to be world-class competitors. They have to be competitive in Paris, in effect, because if they are not, their world-class competitors are going to come and eat their lunch in their own backyard. So, you are absolutely correct.

With that said, I think that there is no way that we could ever commit enough resources in the Federal Government to do the kind of outreach that you are talking about. And therefore, the question becomes, how do we take available resources and lever them or multiply them in a way that gets more export consciousness and awareness in the business community? And using local resources as multipliers, in effect, is an extremely useful and valuable way to do it.

The Eximbank has a pilot program called the City-State Program, which works with local groups, i.e., State export offices, city export offices, and special purpose authorities like the exporting effort of the New York Port Authority. They have basically tried to work with these local groups to build on their familiarity with the local business community and their outreach capability as a way of getting better access to the business community at the local level.

So I would say anything the Federal Government can do in partnership with other levels of government familiar with local business communities is worth a try, because those are the folks on the ground who know the companies. They know what local businesses are doing, they are familiar with their opportunities and constraints, and anything we can do to use such multipliers, I think, would be a good initiative.

Ms. CANTWELL. We had a similar program in our State in which the local economic development authority got the grant and went out and picked 25 businesses and put them through a program, helped them, created about $3 million in new exports and about 20 new jobs in the county, but it was only by their outreach; otherwise, those businesses would have never walked into a Federal or a State office.

Mr. MENDELOWITZ. Sure. I mean, let's face it, the average businessman does not view the government as someone who is really going to help. I mean, there is some antipathy there on the part of the business community, you know. They don't look to the government as an agent who can really help them do something that is good for their business.

Ms. CANTWELL. Thank you. My time is up, and—Mr. Manzullo?

Mr. MANZULLO. Thank you very much.

I have got a couple of questions, Dr. Mendelowitz. Do you really believe in our own mind, in your own heart, that by September 30th of 1993, that the Trade Promotion Coordinating Committee is going to have something substantive?

Mr. MENDELOWITZ. I think that it is doable. And really, it is a question of priorities, and I will give you two extreme examples.

The U.S. and Foreign Commercial Service, about 4 years ago, embarked upon a strategic review, trying to identify its mission, its customers, what its program should be; and it was an ongoing effort that I think produced some really helpful and useful insights, which gave direction to what they do. They did this on their own without a legislative mandate or requirement, because they felt this was something that was necessary to get their house in order, in effect, and give direction and meaning to what they were doing.

At the other extreme, the Food Act of 1990 required the Foreign Agriculture Service to prepare a long-term agricultural trade strategy and required that it be delivered by, I think, September of 1991. They delivered their first draft in January of 1993, a year-and-a-half later, and it was a fairly poor effort. I gave it a quick look-see and, quite frankly, I didn't see much in the way of a useful strategic plan that would provide the Foreign Agriculture Service with a good management tool for trying to redirect its efforts.

So the answer is, if they give it the priority, if they approach it seriously, if they draw on the very extensive work that has already been done by a large number of groups, they can do it.

Mr. MANZULLO. Does the TPCC have members of the private sector involved in this decisionmaking?

Mr. MENDELOWITZ. The TPCC is an interagency grouping which consists only of——

Mr. MANZULLO. Bureaucrats.

Mr. MENDELOWITZ [continuing]. Federal Government agencies. I am sorry, what?

Mr. MANZULLO. It is just bureaucrats.

Mr. MENDELOWITZ. Well, actually, it is Presidential appointees, at the Cabinet Secretary level. But there are a number of advisory groups out there who provide private sector input. For example, the President's Export Council, which works with the International Trade Administration, provides a vehicle for private sector input into the efforts and export programs that the Commerce Department engages in.

Mr. MANZULLO. If this plan is presented according to, your specifications, how much in terms of actual dollars do you believe would have to be spent? My understanding is that we spend $2.7 billion now for export promotion programs. Do you believe that we could actually spend less money and accomplish much more?

Mr. MENDELOWITZ. Well, I think that $2.7 billion represents the outlays actually made in 1991. We think that a lot more can be accomplished, simply because if you look at the effectiveness of how the dollars are spent program by program, there are programs where it is not being spent very well.

For example, the Agriculture Department has a program called the Market Promotion Program, MPP, which has this past year had a budget of about $200 million. For 1993, the budget was cut to, I think, just under $148 million. This is a program in which public funds are handed over to private companies to advertise their products overseas. And there is very little in the way of the design of the program that ensures that we get anything in return for this money. Other programs operate differently.

For example, if we have an investment tax credit or an R&D tax credit and you look at the way historically the Congress has structured these, they are very different. In order to qualify for government assistance or a government incentive to investment, you have to invest more than what you did in the preceding years. If you want to get an incentive for R&D, you have to spend more in R&D than you did in preceding years.

Under the MPP you can get money, but there is no requirement that ensures that you do anything above and beyond what you would have done without the Federal money.

Mr. GEJDENSON. Will the gentleman yield for a moment? Is this the McDonald's money and the California raisin money?

Mr. MENDELOWITZ. Yes. So my answer is, I am sure that we can—if we look carefully at how we spend the money, we can get a lot bigger bang for the buck than what we are getting.

Mr. MANZULLO. I do have one last question.

May I, Madam Chairman?

Ms. CANTWELL. You are cutting into the chairman's question, but we will get back to you a second time.

Mr. Gejdenson.

Mr. GEJDENSON. Thank you. One of the disagreements that I have with Sam Gibbons is he wants to get rid of the progressive, graduated income tax, and he wants to replace it with a value added tax. The present tax system, he says, is a disincentive to exporting, and under the GATT, one cannot apply value added taxes to products that are exported. But is it against the GATT to take away income taxes for products that are exported?

Mr. MENDELOWITZ. That is correct.

Mr. GEJDENSON. Why then did we agree to such a provision that gave a tax disadvantage to American corporations?

Mr. MENDELOWITZ. Well, that goes back almost 50 years; and I will be honest, I don't really——

Mr. GEJDENSON. In 50 years it never dawned on our negotiators that this was bad for a country that raised the bulk of its money through a graduated income tax?

Mr. MENDELOWITZ. Well, I have to say that the academic literature on value added taxes and their impact on trade has historically maintained the position that, in fact, exchange rates adjust, and the impact on exporting of the value added tax washes out in the end.

Mr. GEJDENSON. You can make the same argument, couldn't you, on the income tax?

Mr. MENDELOWITZ. Well, yes.

Mr. GEJDENSON. Let the taxes go up elsewhere and you end up paying more to your workers because they are paying a penny more in taxes so that you can export the product without taxes. Those are the kinds of theories that claim wealthy people don't pay taxes, corporations don't pay taxes. Everything does get passed along at some point.

Mr. MENDELOWITZ. I think that the historical academic arguments that claim it has very little effect are less compelling today than they were in the past. The primary reason is experience in the 1980's and the current literature on what determines currency exchange rates.

It became clear in the 1980's that foreign exchange rates were being driven by capital flows rather than by trade in goods, i.e., exports and imports. Once you accept the fact that capital flows primarily determine exchange rates, it is less clear that the impact of value added taxes on exports and imports washes out in the operations of the foreign exchange market.

Mr. GEJDENSON. Should we ask the new President to put on the table a demand that our taxes be dealt with the same way that the British and other taxes are dealt with when it comes to exports, that there is some discounting of taxes for products sold overseas?

Mr. MENDELOWITZ. I think that this applies to both taxes, as well as a number of other issues, for example, health care. My understanding is that in Canada, health care is financed out of basically a value added tax. In the United States, health care is basically financed out of corporate revenues. That means, even if wages were identical—and they are not because of, among other things, movements of exchange rates—it is more expensive for GM to make a car in the United States than in Canada, just because of the difference in health care costs associated with building a car in the

United States versus the cost of building a car in Canada. I mean there is a whole host of distortions——

Mr. GEJDENSON. My preference is one page, but if you are not able to be that concise, I would take a multiple-page document from you delineating some of the things that have structurally put us at disadvantage.

Mr. MENDELOWITZ. Sure. We can try to do that.

Mr. GEJDENSON. Thank you.

[The information appears in the appendix.]

1Let me ask one quick question. Why do USDA export programs, like MPP, have such power at OMB as compared to the Foreign Commercial Service, that you only get minor increases in revenue?

Mr. MENDELOWITZ. I think that the key to the process is the fact that export promotion is not a budget category. If you go to the budget, you can't find export promotion in the President's budget.

Mr. GEJDENSON. Should it be?

Mr. MENDELOWITZ. I think so. And I think that the strategic plan required of the TPCC with the budget priorities is, in effect, a first step toward achieving it.

Under the current system, all the export programs that are out there don't compete with one another to create some kind of rational export promotion effort governmentwide. What they do is, on an agency-by-agency or program-by-program basis, they compete with the domestic programs of the agencies they are in. So, for example, at the Department of Agriculture, export assistance doesn't compete with the Commerce Department's export programs; it competes with the other programs in Agriculture.

Ms. CANTWELL. Thank you. Mr. Roth.

Mr. ROTH. Thank you, Madam Chairman.

You know, Allan Mendelowitz, you have done something that all of us conservatives in Congress couldn't do. We finally got Sam Gejdenson to adopt some conservative political philosophy. The next thing Sam is going to say is that the income tax is unconstitutional, and then we know that he is in with us.

I wonder if you could tell me about the VAT tax that some of the people are starting to talk about. Maybe you could help me. I am having a big meeting in Green Bay this coming Saturday, and for the good of, well, people that maybe want a little more insight into the VAT tax, could you tell me in layman's language just how this VAT tax would affect the paper producer, say, in Wisconsin?

Mr. MENDELOWITZ. Well, it depends on what rate it is levied at. But you are raising an issue of——

Mr. ROTH. Basically with a VAT tax you are taxing people at every stage of production is what it amounts to.

Mr. MENDELOWITZ. Yes. Actually, the easiest way to describe a VAT is basically, to call it a sales tax, because that is what the VAT is. In terms of the ultimate consumer, the VAT is equivalent to a sales tax.

If you buy something that costs $100 and the VAT rate is 5 percent, you basically pay 5 cents on the dollar. The fact that——

Mr. ROTH. I am sorry, I don't mean to interrupt, but you are basically—so that anybody in the street can understand it, you are putting a tax at every stage of production on that product, right?

Mr. MENDELOWITZ. That is right. You are putting a tax at every stage, but it is only on the value added. So for example, for something that costs $100, if the first person who processes what goes into that product adds $10, that person would pay 5 percent on the $10. If the next person adds $20 in value to it, instead of paying 5 percent on the $30, they just pay 5 percent on the $20 that they added, and so on through the process. At the very end, what in effect has happened is that the cost of the product has gone up simply by 5 percent.

People talk about the value added tax with some confusion. I have to say that I want to add a little historical note about it, that goes back to its adoption by the European Community. Before the adoption of the value added tax in the European Community, the European Community countries didn't rely heavily on corporate income taxes. The European Community countries relied on what were known as cascade taxes. With cascade taxes, a tax—for example, 5 percent—would be added at each point in the process at which an intermediate product changed hands.

If you had a widget being produced with the efforts of 10 different companies, every time the work in process changed hands from the raw material to the final product, a 5 percent tax would be added. If you had one company going from the raw material to the final product and it changed hands only once, you would only get 5 percent added on at the last stage.

The problem with these cascade taxes is that they were not neutral with respect to the structure of the industry. If you had large, vertically integrated organizations, there would be a smaller tax bite than if you had a large number of intermediate producers along the way. So they introduced a value added tax to replace these cascade taxes, so the impact or the bite of the tax would be the same, whether it was one company that produced the final product or 50 intermediate producers that produced the product. So that is what the big advantage of the value added tax was; and that is what all this mystery is about, why you pay a little bit of a tax at each stage along the way.

But really, just to understand it, it basically is nothing but a sales tax which charges some fixed percentage on the final product when it gets sold.

Mr. ROTH. Now, the President has said we may well have to look at the VAT. Let me ask you, do you think that this would help our competitiveness with U.S. exports or would it impede our competitiveness?

Mr. MENDELOWITZ. I think that it would help somewhat, and I will tell you why. One is, as the chairman pointed out correctly, when you export a product, you don't pay value added tax on the exported item. So if you—if, for example, the value added tax were 5 percent and you manufactured a $10,000 machine tool, in the United States that machine tool would sell for $10,500, with the value added tax, but for the export purchaser it would cost $10,000, plus the VAT in the country where it was purchased.

Now, if we were to import a machine tool from Germany and that machine tool in Germany cost $10,000 and there was a 5 percent VAT in Germany it would sell in Germany for $10,500; when it was sold to the United States, it would only sell for $10,000 un-

less there were a U.S. VAT. If we don't have a VAT, the German export that comes to the United States has no tax imposed upon it by the Germans, and then it has no tax imposed upon it by us. If we had a VAT, we would not charge the VAT on what we exported and we would charge the VAT on what we imported.

We are currently running a merchandise trade deficit of, I think something close to about $100 billion a year. That $100 billion currently escapes from the tax base of the Federal Government. If you have a value added tax, that $100 billion trade deficit which represents more imports compared to exports, gets added to the tax base and the Federal Government would collect tax revenue on that.

Mr. ROTH. Thank you very much. I appreciate your explanation.

Ms. CANTWELL. Mr. Mendelowitz, I wanted to get back to the Eximbank, and I hope this doesn't sound like a leading question, but coming from a State with the country's largest exporters, the Eximbank has been a very valuable tool for us.

What is your opinion on the level of funding for the Eximbank and where we should be in the future?

Mr. MENDELOWITZ. I think if you look at the share of U.S. exports that receive export finance assistance from the Eximbank and other government agencies, you basically see the United States has a smaller percentage of its exports benefiting from government export finance programs. So if your basis for determining sufficiency is, what are we doing relative to what our competitors are doing, we are basically doing less than a country like France or a country like Japan.

Secondly, the issue of sufficiency of Eximbank's resources, is extremely hard to assess now because of credit reform. With the passage of the credit reform legislation in 1990, a new budget process for credit programs was set up so that the Congress would, in effect, be able to deal more rationally with credit programs. Instead of considering a dollar loan as an outlay, and a dollar of guarantee—credit guarantee as not costing the government anything, credit reform basically set up a process by which the subsidy costs associated with credit programs get recognized in the budget process.

With that said, it is relatively easy to determine the budgetary sufficiency of domestic programs like student loans or Federal Housing Administration guarantees, simply because you are dealing with subsidy costs that are based upon assessments of default rates that are determined by looking at large numbers of program beneficiaries. You have thousands and thousands of borrowers in these programs, you have some historical data on who defaults, who doesn't, and what these programs are going to cost in terms of claims. Therefore, when you say the student loan program is budgeted at a billion dollars of subsidy cost—I don't know what the real number is, off the top of my head—but if you said that, you then would have a good feel at the beginning of the budget process as to how much in the way of student loans that program could support.

Once you move into the international programs, it is much more complex, because you are dealing with the issue of country risk. You are dealing with a process which requires you to make judg-

ments at the beginning of each year as to the probability of default on loans of each country that might be a borrower in the program. However, you don't know in advance which countries are going to come in and borrow money. Therefore, you wind up in the extremely difficult situation in which you appropriate money for Eximbank—in this case, $757 million this year—and you don't know in advance how much that appropriation will support in the way of export credit assistance. Until the borrowers come in and you see how risky the borrowers are, you don't know what can be supported.

So, a billion dollars in subsidy costs for the Eximbank can support maybe $2 billion in credit assistance if the borrowers are extremely risky or $10 billion in borrower assistance if they are more creditworthy. I consider it to be a difficult situation, because when the budget process is going on, you really can't tell whether the Eximbank's budget is going to be sufficient, because you don't know how much in exports it can actually assist.

Ms. CANTWELL. So would you say, based on that, that we should look at a mildly significant increase, a significant increase, or no increase?

Mr. MENDELOWITZ. I don't know that GAO has ever gone on record recommending more money for anything. But I think that maybe the thing to do is to watch the demand for Eximbank's export financing programs carefully throughout the year, and if it turns out that there is a squeeze and exports are suffering because of inadequate Eximbank resources, maybe the right thing to do is to consider supplementals if they are needed.

Ms. CANTWELL. Thank you. Mr. Manzullo.

Mr. MANZULLO. Thank you, Madam Chairman.

Dr. Mendelowitz, inasmuch as the government has been unable to bring together 10 organizations for the purposes of promoting exports overseas, is it plausible in your opinion that we just privatize this? I mean, just say it would no longer be a government function to spend taxpayers' money to sell your products overseas; what we will do is set up a framework, a one-stop shop, and then let private industry pick it up?

Mr. MENDELOWITZ. I think that obviously any time you can get the private sector to do something, we are ahead of the game. If the private sector can do it well and doesn't require any tax expenditures, then we get an outcome that we want, and it has no impact on the budget.

Unfortunately, the history of trying to privatize all these activities has not been all that encouraging. Back in the early 1980's, the Export Trading Company Act was passed, and the expectation was that with the passage of the Export Trading Company Act and the reduction in certain restrictions imposed by antitrust legislation and certain other restrictions, the expectation was that there would be an explosion in export trading companies who would then, in effect, be critical market-makers to help U.S. manufacturers export.

In actuality, the Export Trading Company Act has had very little impact upon U.S. exporting, and it has not been a widely used type of entity. The Commerce Department set out in the 1980's to try to privatize to the maximum extent possible trade fairs, get the private sector involved in organizing trade fairs instead of having the

government do it. The result was that, in known markets where the trade fair organizers could do it and make money, they stepped forward to take over organizing the trade fairs. In markets that were riskier and less developed, nobody wanted to do it, so it fell to the government.

And so I think that there are, for whatever reason, enough market failures with respect to information, with respect to economies of scale, with respect to some things that are inherently government functions, which in effect create a situation in which the government does have a role to play, and that role cannot be totally privatized.

Mr. MANZULLO. So what is your answer?

Mr. MENDELOWITZ. My answer is if you can do it, great, but based on past experience we haven't been able to do it.

Mr. MANZULLO. Also based on past experience of the governmental agencies, I mean, I share your enthusiasm, but I don't think either of us is optimistic that the TPCC is going to come up with something substantive. The reason I queried you with regard to the privatization is whether or not in your opinion you think that there may be some major companies that want to keep the confusion going so as to be able to keep smaller competitors from being involved overseas.

Mr. MENDELOWITZ. I don't think the confusion persists because of the private sector wanting to reduce competition. I really do believe the confusion continues because of the way we have organized our departments, and the way we have organized the authorization and appropriation process in the Congress. It continues because there are all sorts of imperatives out there, bureaucratic imperatives, turf imperatives within the government agencies themselves that help to perpetuate this process. Nevertheless, I want to be very careful because I certainly don't want to give the impression that I am pessimistic about the TPCC and the mandate in the Export Enhancement Act of 1992.

I actually am quite hopeful that that process will help improve the situation. I think that act was passed, in part, because we pointed out the glaring inconsistencies in the process for funding these programs. That legislation was passed, in part, because we talked about and pointed out the lack of coherence. It was passed, in part, because one of the things we pointed out was the fact that the California Raisin Advisory Board got more money in 1991 to advertise raisins in the Japanese market than the U.S. Foreign Commercial Service got to run its whole operation in Japan, so I actually am hopeful that this will make some contribution.

Mr. Roth asked earlier about reorganizing government, creating a Department of Trade, for example, and this is a proposal which could go a long way toward addressing a lot of the problems we have talked about today. The problem is that the obstacles toward creating the department are quite formidable in and of themselves. The TPCC is what I call the minimalist solution.

Mr. MANZULLO. Thank you, Doctor.

Ms. CANTWELL. I am sure we could ask Dr. Mendelowitz continuous questions all afternoon, but this will be, I have been informed by the permanent subcommittee chair, the last round of questions, and we will start with you, Mr. Gejdenson.

Mr. GEJDENSON. Thank you. Let me ask one final question. Could you give me a list in outline form of your recommendations for changes in Federal action on trade policy, and what you think is most important in that priority.

My last question would be this: The industrial policy is now at the point where we have an administration that is ready to utter those words in public. That may give us some advantage here because starting where you started in trying to take a look at what we spend on agriculture and what we spend on manufactured goods and other areas, shouldn't we sit down and get a clear understanding of what trade does for us?

My view is rather basic. That is the way you make yourself richer in the global sense of people trading value and wealth, that the more you buy from somebody else, the more wealth you have to give them. At the end of the day you end up a renter instead of an owner, and that is a step down from where we were at the beginning of the 1980's. So if my assumption is correct that there is some inherent economic advantage to selling something overseas than simply just moving it around our own market, then it makes sense to focus on trade, not at the cost of opening up our market necessarily.

I mean if we sell a dollar's worth of value and the net result of that is that we import a dollar, then we have made no movement. It seems to me we need to do as much domestic selling as we can in an open market, and also gain as much in exports as we can because that is how we raise the wealth of the Nation. I think that in our standard of living, we need to take a look at where export promotion will do the most good for the economy. Where does it create the kinds of jobs in which we are most competitive, and where does it help us get ready for the industrial or agricultural activity of the future?

On the other hand, where we are using dollars for marginal benefit, maybe we need to look at future industries, industries that will be alive and productive and where we can be dominant in the next century, so with that easy question as my final——

Mr. MENDELOWITZ. I think the point you made about what exports will contribute the most to the economic well-being of our country is the central question in a strategic plan as to where the Federal export promotion dollars should go. I think the way to look at trade really is to look at trade as, in effect, the economic equivalent of a superior technology. You can gain more wealth with available resources, with it than you can without it.

In order to do that you have got to export and you have got to import, and that is, I think, the correct way to formulate the perspective on trade.

Mr. GEJDENSON. Thank you.

Ms. CANTWELL. Thank you.

Mr. Roth.

Mr. ROTH. Madam Chairman, I think I have had all my questions answered, and I want to thank Dr. Allan Mendelowitz for his wonderful testimony and answering forthrightly our questions.

Ms. CANTWELL. Thank you, Dr. Mendelowitz. If we don't have any further business, we stand adjourned.

Mr. MENDELOWITZ. Thank you.

[Whereupon, at 3:10 p.m., the subcommittee was adjourned.]

APPENDIX

STATEMENT OF THE HON. SAM GEJDENSON
STATE OF THE U.S. EXPORT PROMOTION PROGRAMS
MARCH 15, 1993

We meet today to discuss one of the most important responsibilities of this subcommittee: export promotion. And for good reason - exports create jobs. In my state of Connecticut for example, exports were directly responsible for 91,000 jobs in our manufacturing sector in 1991, and 68,000 jobs in the service sector; exports were indirectly responsible for an estimated 159,000 jobs in the state as a whole. At the national level, one in five U.S. jobs is linked to exporting.

The long-term economic health of this nation is directly linked to our ability to encourage more firms, especially small and medium sized firms, to become involved in exporting. It is also linked to our ability to encourage companies that already export to sell more of their products and services overseas.

The good news is the Federal government provides a number of resources for exporters seeking assistance on how to sell their products or services overseas. The bad news is that the resources are inadequate and do not enable our exporters to compete on a level playing field with their international competitors. In addition, there remains a complicated bureaucracy which exporters must work their way through in order to complete a transaction.

Probably no one has done as much research on this issue as today's witness - Allan Mendelowitz, Director of International, Energy and Finance Issues within the General Government Division of the General Accounting Office. Dr. Mendelowitz has written a number of studies on this topic

and continues to provide Congress with important policy recommendations. I am delighted that Dr. Mendelowitz could attend today's hearing to share his knowledge with our Members. Our new Members should know that Dr. Mendelowitz is an extraordinary resource for Congress.

In good economic times, helping small and medium-sized firms export their products is important. In bad economic times, export assistance is absolutely essential. I look forward to the discussion that I am sure Dr. Mendelowitz's testimony will generate.

STATEMENT OF CYNTHIA MCKINNEY

SUBCOMMITTEE ON ECONOMIC TRADE AND ENVIRONMENT

MR. CHAIRMAN, THIS IS AN IMPORTANT HEARING FOR THIS SUBCOMMITTEE AND THOSE WHO ARE AFFECTED BY THE EXPORTS PROMOTION PROGRAMS. THESE PROGRAMS WERE ESTABLISHED WITH THE INTENTION OF PROVIDING U.S. COMPANIES WITH AN INCENTIVE TO SELL GOODS OR SERVICES ABROAD.

ONE CRUCIAL ISSUE BEFORE THIS SUBCOMMITTEE WITH REGARDS TO THE EXPORT PROMOTION PROGRAMS IS WHETHER EXPORT PROMOTION FINANCIAL ASSISTANCE OR RESOURCES ARE BEING CHANNELED INTO AREAS WITH THE GREATEST POTENTIAL OF RETURN. THESE AREAS ARE DIFFICULT TO TARGET WITHOUT OUTLINING A GOVERNMENTWIDE SET OF PRIORITIES.

ACCORDING TO THE GENERAL ACCOUNTING OFFICE, U.S. EXPORT PROMOTION PROGRAMS SHOULD BE EXECUTED IN A MANNER THAT MAXIMIZES THEIR POTENTIAL FOR CONTRIBUTING TO THE U.S. ECONOMY. CURRENTLY, THE PROGRAMS LACK COHERENCE IN THAT THEIR IS NO OVERALL STRATEGY OR SET OF PRIORITIES TO GUIDE AGENCY EFFORTS. THIS IMPEDES U.S. EFFORT TO DETERMINE IF PROGRAMS ARE CONCENTRATED IN AREAS WITH THE HIGHEST POTENTIAL OF RETURN. ALSO, THE REPORT CONCLUDES THAT TREMENDOUS AMOUNT OF AGRICULTURAL FUNDS GO TO LARGE ESTABLISHED U.S. FIRMS AND COOPERATIVES AND NOT TO SMALLER AND MORE INEXPERIENCED FIRMS THAT ARE LIKELY TO NEED COUNSELLING AND FINANCIAL ASSISTANCE.

AS THIS SUBCOMMITTEE REVIEWS THE EXPORT PROMOTION PROGRAMS, IT SHOULD ADDRESS THE INCLUSION OF FIRMS OWNED AFRICAN AMERICANS, WOMENS, AND MINORITIES TO INSURE THAT THEY RECEIVED A FAIR PORTION OF THE FUNDS.

IN SUMMARY MR. CHAIRMAN, THIS SUBCOMMITTEE SHOULD FOCUS ON DEVELOPING AN OVERALL STRATEGY TO ASSESS AND GUIDE AGENCY EFFORTS EFFECTIVELY AND EFFICIENTLY.

EXPORT PROMOTION:
GOVERNMENTWIDE STRATEGY NEEDED FOR FEDERAL PROGRAMS

SUMMARY OF STATEMENT BY ALLAN I. MENDELOWITZ, DIRECTOR, FINANCIAL INSTITUTIONS AND INTERNATIONAL TRADE GENERAL GOVERNMENT DIVISION

GAO's testimony addresses the need for a governmentwide export promotion strategy and discusses funding for federal export promotion programs, the delivery of export promotion services, the Export Enhancement Act of 1992, small businesses' access to export promotion programs, the ways in which U.S. export promotion programs compare to those of other countries, and the adequacy of current funding for export promotion.

The U.S. government devotes significant funds to export promotion programs. However, the programs are not funded on the basis of any governmentwide strategy or set of priorities. Consequently, taxpayers do not have reasonable assurances that their money is being effectively used to emphasize sectors or programs with the highest potential return.

The Export Enhancement Act of 1992 (P.L. 102-429) incorporated GAO's recommendations for mandating the Trade Promotion Coordinating Committee (TPCC), an interagency group created to improve federal export promotion efforts, to (1) devise a governmentwide strategic plan to promote exports and (2) propose to the President an annual unified federal budget for export promotion that would be consistent with priorities established in the strategic plan. However, there has not been sufficient opportunity for TPCC to implement its new mandate.

Small- and medium-sized firms face barriers to exporting, including limited access to federal export promotion programs and export financing. In a previous report, GAO proposed a "one-stop shop" pilot program for partially integrating the delivery in the field of federal export promotion programs. The one-stop shops would be able to provide at a single location the full range of export promotion assistance. Such a program would be especially beneficial to small- and medium-sized firms.

Some elements of the export promotion programs of four European countries may give those countries' exporters an advantage over U.S. exporters. For example, the European countries' programs are less fragmented and generally offer more financial incentives and targeted services than does the United States.

GAO believes that the taxpayer and Congress need better assurance that the current level of export promotion funding is being effectively used. When the mandated governmentwide strategy for export promotion has been completed and funding has been reallocated according to the priorities established by that strategy, Congress will be in a better position to judge the need for additional funds.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here to testify before this Subcommittee on U.S. export promotion programs. My testimony is based primarily on GAO reports and testimony issued in the past year. Today, I will discuss the need for a governmentwide export promotion strategy and the lack of coherent funding for federal export promotion programs, the fragmented delivery of export promotion services, the importance of the Export Enhancement Act of 1992, the difficulties that smaller businesses have faced in accessing export promotion programs, the ways in which U.S. export promotion programs compare to those of other countries, and the adequacy of current funding for export promotion.

BACKGROUND

Programs to help companies sell products abroad are called "export promotion" programs. These programs include providing export financing assistance, offering business counseling, developing and distributing market research information, conducting training, and organizing trade missions and fairs. Most industrialized nations have export promotion programs.

Export promotion programs can help increase a country's exports in sectors of the economy in which the country is competitive. However, export promotion programs alone will not produce a

substantial change in a country's balance of trade because the trade balance is determined primarily by the macroeconomic policies of a country (and its trading partners) and the underlying competitiveness of the country's industry.

Export promotion services in the United States are fragmented among 10 government agencies. The agencies with the most significant programs are the Departments of Agriculture (USDA) and Commerce, and the U.S. Export-Import Bank (Eximbank).

U.S. EXPORT PROMOTION PROGRAMS LACK COHERENT FUNDING

One of our major concerns with federal export promotion programs is how their funding levels are determined. Although the U.S. government devotes significant funds to export promotion programs, the programs are not funded on the basis of any governmentwide strategy or set of priorities. Consequently, taxpayers do not have reasonable assurance that their money is being effectively used to emphasize sectors or programs with the highest potential return.

In fiscal year 1991, federal government outlays for export promotion programs totaled almost $2.7 billion. In addition, the government approved about $12.8 billion in export loans and guarantees and extended about $8.6 billion in export credit insurance. (See app. I.)

USDA receives an overwhelming share of the government's export promotion funding, yet there is no governmentwide strategy or set of budget priorities that form the basis of this allocation. Agricultural products constitute about 10 percent of total U.S. exports. Nevertheless, in fiscal year 1991, USDA spent about $2 billion on export promotion--approximately 74 percent of total outlays--and issued about $5.7 billion in loans and loan guarantees--approximately 45 percent of total federal export loans and loan guarantees.

One USDA program, the Market Promotion Program (MPP), received more funds in fiscal year 1991 ($200 million) than was spent by the Commerce Department on all its export promotion programs put together. Further, more than a third of the money spent by MPP goes to promote brand-name products, some of which are produced by multinational companies with extensive experience doing business in other countries.

The following companies were among the largest brand-name recipients of MPP funds to promote their products overseas from 1989 to 1991:

-- Blue Diamond received $22.7 million to promote the sale of walnuts and almonds.

-- Sunsweet Growers received $10.5 million to promote the sale of prunes.

-- Sun-Maid received $9.4 million to promote the sale of raisins.

-- Gallo received $8.1 million to promote the sale of wine.

-- M&M Mars received $2.8 million to promote the sale of its products.

-- McDonald's received $1.2 million to promote the sale of poultry and eggs.

Compared to the money allocated to USDA to promote exports, the Department of Commerce, which is responsible for promoting nonagricultural exports, has very limited funds. In fiscal year 1991, the Department of Commerce spent about $91 million to support exports of nonagricultural products through its U.S. and Foreign Commercial Service (US&FCS), with the money spread among US&FCS's network of 131 posts in 67 countries and 47 domestic offices. For example, US&FCS was able to devote only about $4.3 million to support the work of its overseas commercial staff in Japan, one of the United States' most important foreign markets, while USDA budgeted $63.9 million for MPP activities in Japan.

One of the reasons why there is no coherent funding for export promotion programs is the fact that there is no single budget category for all of the government's export promotion programs. Thus, export promotion funding at an agency must compete for funding with other types of programs in the agency rather than with export promotion programs elsewhere in the government. For example, the USDA's export promotion programs compete for funding with other USDA programs, such as the Rural Electrification Administration and the Extension Service, rather than with export promotion programs at the Department of Commerce.

DELIVERY OF EXPORT PROMOTION SERVICES IS FRAGMENTED

The current federal export promotion system is limited in its ability to help small- and medium-sized exporters access federal export promotion programs because of the way those programs are delivered in the field. While each of the three primary agencies that small businesses might approach for export assistance--the Eximbank, US&FCS, and the Small Business Administration (SBA)--can offer some assistance, none have all the necessary elements to assist small businesses.

-- While the Eximbank has staff expertise in export financing and provides the largest amount of federal export financing (loans, guarantees, and insurance) it has a small staff and a very limited field structure for

marketing and delivering its programs.[1]

-- US&FCS maintains the principal network of government field offices for export promotion assistance (47 offices in 38 states and Puerto Rico), yet the field offices have limited funds and staff to support their operations and provide no direct access to federal export financing programs.

-- SBA has the authority to provide export financing through its Export Revolving Line of Credit (ERLC) program. It also has a large field structure and substantial funds. However, the program has been little used, in part because very few SBA loan officers have expertise in providing export finance.

Because the system is so fragmented, firms that need both export financing and other types of export promotion assistance often must contact several different federal agencies to get the assistance they need. This system can be confusing and discouraging to exporters.

In an effort to try to improve the decentralized approach to

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[1]The Eximbank has recently taken over operations of five regional offices that were formerly administered by a contractor to market the Eximbank's export credit insurance program. The Eximbank plans to use the offices to market all of its programs--loans, guarantees, and insurance.

government export promotion programs, the President created the Trade Promotion Coordinating Committee (TPCC) in 1990.[2] TPCC, an interagency committee chaired by the Secretary of Commerce, has established working groups to study specific export issues, held export facilitation conferences for the U.S. business community, and created a single trade information center to provide information on all federal assistance available to exporters. While TPCC has had some successes, it has not been able to address the fundamental issue of the allocation of budgetary support for different agencies' export promotion programs.

In order to strengthen the effort to bring coherence to the government's export promotion programs, Congress passed the Export Enhancement Act of 1992, which was signed into law in October 1992.

THE EXPORT ENHANCEMENT ACT OF 1992

The Export Enhancement Act of 1992 (P.L. 102-429) incorporated our recommendations for mandating TPCC to

[2]TPCC is made up of representatives from the Departments of Agriculture, Commerce, Defense, Energy, Interior, Labor, State, Transportation, and the Treasury; the Agency for International Development (AID); the Council of Economic Advisers; the Environmental Protection Agency; the Eximbank; the Office of Management and Budget; the Office of the U.S. Trade Representative; the Overseas Private Investment Corporation; SBA; the U.S. Information Agency; and the U.S. Trade and Development Agency.

-- devise a governmentwide strategic plan to promote exports and

-- propose to the President an annual unified federal budget for export promotion that would be consistent with priorities established in the strategic plan.

The law also gave TPCC statutory responsibility for coordinating export promotion programs. In other words, the Export Enhancement Act provided a statutory basis for TPCC and made it permanent.

We believe that successful implementation of this new authority will be the key to defining a stronger, more effective federal role in assisting U.S. exporters. Therefore, we believe that the administration needs to develop a sound strategy and policies for carrying out this responsibility.

Because the Export Enhancement Act did not become law until October 1992, and because of the change in administrations, there has not been sufficient opportunity for TPCC to implement its new mandate. However, we believe the new administration will need to give priority attention to the Export Enhancement Act of 1992 because it requires the TPCC's Chairman to prepare and submit to Congress by September 30, 1993, a report describing the TPCC's strategic plan and its implementation. Therefore, TPCC has a

little over 6 months in which to complete this challenging task.

I would now like to discuss some of the specific problems small- and medium-sized companies face in accessing federal export promotion programs, and some possible actions to address those problems.

EXPORT PROMOTION AND SMALL BUSINESSES

There is evidence that a large number of smaller companies have products that are competitive in foreign markets, yet these products are not currently exported. Small companies that can export report facing a number of barriers, including limited access to export financing and federal export promotion programs.

Access to Export Finance

In recent years, there has been a growing demand for export finance, especially by small- and medium-sized companies. A TPCC study found that the greatest financing need is for pre-export financing and financing for small companies ($5 million-$30 million annual revenues), smaller transactions ($300,000 or less), and revolving lines of credit of $1 million.

However, smaller businesses' access to export financing has been limited because commercial banks have cut back their

international lending activities and their less profitable lines of business, including financing smaller transactions. Access by smaller firms has also been limited by the lack of Eximbank field offices.

The Eximbank is required to assist small businesses and provide at least 10 percent of its aggregate budget authority directly to those businesses. The Eximbank has made efforts to better serve smaller firms. Traditionally, the Eximbank has relied on the commercial banking system as its principal means of delivering financing to small- and medium-sized businesses. However, the Eximbank's ability to reach exporters has been adversely affected by the fact that commercial banks have been reluctant to finance exports, especially by smaller firms. Thus, the Eximbank has tried to find other ways of delivering its services, such as using state and federal agencies. One such federal effort is a joint program that the Eximbank and SBA established in 1984 to make export financing assistance more accessible to small businesses. However, this program has not been a high priority of either agency.

In 1987, the Eximbank initiated another effort--the city/state program--to improve the delivery of its services. In its city/state program, the Eximbank works with city and state agencies in 22 locations to make Eximbank assistance more accessible to small- and medium-sized businesses. This program

benefits the Eximbank because the city/state participants screen exporters, package loans, and provide exporters with information about Eximbank and other government programs.

Other efforts by the Eximbank to improve the delivery of its services to smaller firms include

-- forming a Small Business Group to centralize, coordinate, and integrate its small business activities;

-- speeding its processing of small business transactions by delegating approval authority to the Small Business Group; and

-- making technical changes to the small business programs, such as increasing its risk coverage for its guarantee and insurance programs for small businesses to make the programs more attractive to bankers and others who administer the guarantees or insurance.

Despite these efforts by the Eximbank to assist smaller firms, banks and other administrators of Eximbank programs still have some concerns. These concerns involve the application process and documentation requirements (which have been described as being complicated, difficult, and time-consuming), and the collateral requirements for the Eximbank's Working Capital

Guarantee program.[3]

One-Stop Shop for Export Promotion Assistance

We believe that small- and medium-sized businesses are being hurt by the fragmentation of federal export promotion programs and the inability to access such programs at one location. Our past work on export promotion suggests that companies would benefit from having a single source in their community for all government export assistance. We have proposed a pilot program for partially integrating the delivery in the field of federal export financing and other export promotion programs in order to test out the benefits of integrating all government export assistance.[4]

We believe that a network of one-stop shop field offices would improve companies' access to all government export promotion programs--including technical assistance in exporting and export financing programs. Such a network would reduce to one location the number of places companies would have to contact to receive the government export assistance they need. These field offices

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[3]The Working Capital Guarantee program was developed to meet the specific demand for pre-export financing for small businesses. This program encourages commercial lenders to make loans to small companies that have exporting potential but need funds to produce or market goods or services for export.

[4]See appendix I of Export Finance: The Role of the U.S. Export-Import Bank (GAO/GGD-93-39, Dec. 23, 1992).

could eliminate much of the public's confusion as to what government services are available. Field office one-stop shops could more easily provide face-to-face assistance, more sustained counseling, and more complete information based on knowledge of all federal programs and local business conditions. Moreover, companies might gain confidence in and thus more likely use government export promotion programs if the programs were supplied by a single, smoothly functioning local source.

Despite the potential benefits, creating a nationwide network of one-stop shops could face obstacles. Executive branch agencies carefully guard their turf and may be expected to resist any major efforts to integrate field operations. Also, agency officials told us that substantial funds would be needed to relocate federal offices and to provide staff with the required training and support.

Given these obstacles and the current budget environment, we proposed a pilot to test out this concept of the one-stop shop. It would use the funds and staff of the Commerce Department, SBA, and the Eximbank to more effectively provide integrated delivery of export assistance to U.S. firms. In the pilot, loan officers from the SBA's district offices would be thoroughly trained in the export financing programs of both the Eximbank and SBA. They would then be stationed at selected US&FCS district offices. The cost of the pilot could be minimized by taking advantage of the

fact that there are 12 cities in which US&FCS and SBA district offices are located in the same building. These offices would then be able to provide at a single location the full range of export promotion assistance, from evaluation of export readiness through access to assistance in getting government export financing. We believe that TPCC should oversee and assess the results of the pilot.

COMPARISON OF U.S. EXPORT PROMOTION PROGRAMS WITH THOSE OF OTHER COUNTRIES

According to data collected by the Organization for Economic Cooperation and Development, in 1990, the United States exported $394 billion in goods and services, about 7 percent of the U.S.' gross domestic product (GDP).[5] By comparison, exports represent a much greater share of the economies of some of the largest European countries, ranging from about 27 percent of GDP in Germany to 16 percent of GDP in Italy. (See app. II.) To assist their exporters in entering world markets, these countries have adopted some unique approaches. We studied the nonagricultural export promotion programs of four European countries and compared them to those of the United States.[6] The European countries

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[5]OECD is a forum for monitoring economic trends and coordinating economic policy among its 24 member countries, which include the economically developed free market democracies of North America, Western Europe, and the Pacific.

[6]Export Promotion: A Comparison of Programs in Five Industrialized Nations, (GAO/GGD-92-97, June 22, 1992).

included in our review were France, Germany, Italy, and the United Kingdom.

The degree of government involvement in, and integration of, export promotion programs varies sharply among the countries we studied, so few overall generalizations can be drawn about the four European countries' export promotion programs. However, several factors may give these countries' exporters an advantage over U.S. exporters. I would like to briefly discuss this issue.

Export programs in France, Germany, Italy, and the United Kingdom are less fragmented than those in the United States. In countries in which the national government plays a major role, the programs are consolidated in one or among a few national agencies or unified under a governmentwide strategic plan. For example, in France a single government agency manages most aspects of export promotion. Further, European exporters are more actively aided by semiprivate and private organizations (such as chambers of commerce and industry associations) than are U.S. exporters. In Germany, the government limits its export promotion activities to gathering and distributing market information, but the government strongly supports the chambers of commerce that help exporters. In fact, German businesses must pay dues and service fees to the chambers of commerce. Further, some of Germany's overseas chambers of commerce may receive funds from the German government.

In France, Italy, and the United Kingdom, governments tend to spend relatively more money on and assign more staff to promoting exports than do the United States and Germany. (See apps. III and IV.) (However, the German figure does not include the expenditures by the chambers of commerce in support of exporting.) For example, in 1990 export promotion spending in relation to exports ranged from a high of $1.99 per $1,000 in France to a low of $0.22 per $1,000 in Germany. The United States fell near the low end, spending $0.59 for every $1,000 of exports.

Although the United States and the European countries we reviewed offer a similar range of export promotion programs and services, the European countries generally offer more financial incentives and targeted services than does the United States. Some European countries offer financial assistance to businesses participating in trade events and for market development, target assistance to small- and medium-sized companies, and provide greater access to export financing (with fewer restrictions on obtaining it) through a network of field offices. For example, France has 22 regional offices where exporters can obtain financing, and Germany has a consortium of 54 banks through which exporters can apply for financing.

ARE US&FCS AND EXIMBANK FUNDS ADEQUATE?

We believe the taxpayer and Congress need better assurance that the current level of export promotion funding is being effectively used. When the mandated governmentwide strategy for export promotion has been completed and funding has been reallocated according to the priorities established by that strategy, Congress will be in a better position to judge the need for additional money. Nevertheless, we do have some observations about the budgets of US&FCS and the Export-Import Bank.

US&FCS

We believe that US&FCS has had a very tight budget situation, considering the magnitude of the task it has been given. By way of comparison, the US&FCS budget for fiscal year 1993 is about $102 million, approximately $45 million less than USDA's Market Promotion Program.

This budget supports a very thinly staffed field structure. US&FCS field offices are generally small, in some cases one- or two-person posts whose size limits their ability to function effectively. The US&FCS has, on average, less than two Foreign Commercial Service officers per overseas post. Similarly, if all of US&FCS field staff is taken into consideration--including officers, clerical staff, and "foreign service nationals"

(foreign nationals employed by U.S. posts)--US&FCS has on average only about five staff per field office.

Staffing problems have been further complicated in the past couple of years by the need to open posts in the newly independent states created in Eastern Europe and the former Soviet Union. Freeing up funds and staff for such posts has necessitated shutting down existing posts in other countries.

In addition to tight staffing, US&FCS daily operations have also been hampered by a shortage of funds. For example, overseas post operations have, at times, lacked the funds to respond to U.S. businesses with exporting needs (sending faxes, responding to overseas calls, and purchasing market research publications).

Eximbank

As markets for U.S. exports continue to grow in Latin America, Eastern Europe, and the former Soviet Union, demand for Eximbank services is rising. In fiscal year 1991, the Eximbank used all of its budget authority for the first time in many years. In that year, the value of exports assisted by the Eximbank rose by about 29 percent, to $12.1 billion, the highest level since 1981.

The adequacy of the Eximbank's appropriations is hard to determine because of the new way in which federal credit programs

are scored in the budget process. The Federal Credit Reform Act of 1990 changed the way in which loans and guarantees are included in the budget to more accurately reflect the cost of government credit programs. Under the act, appropriations are required for the estimated present value of the cost to the government of its loan and guarantee programs. The Eximbank was authorized $757 million by Congress in fiscal year 1993 and has requested the same amount for fiscal year 1994 to cover such costs. However, it is not possible to know in advance how much in exports this appropriation can support. The cost of an Eximbank loan or guarantee will be greatly affected by the creditworthiness of the countries involved. For example, $1 billion in authorized cost for the Eximbank export credit programs may only support $2 billion in export loans and guarantees extended to a very risky country, but could support $10 billion in exports to a significantly less risky country.

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Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I will be happy to answer any questions that you or the Subcommittee may have.

LEVELS OF U.S. EXPORT PROMOTION ACTIVITIES, FISCAL YEAR 1991

Dollars in millions

Agency	Outlays[a]	Loans and loan guarantees	Insurance
Agency for International Development	$106[b]	$0	$160
Agriculture Department	1,972[c]	5,700	0
Commerce Department	195[d]	0	0
Energy Department	3	0	0
Export-Import Bank	326[e]	6,638	4,554
Interior Department	*	0	0
National Aeronautics and Space Administration	*	0	0
Overseas Private Investment Corporation (OPIC)[f]	11	290	3,900
Small Business Administration (SBA)[g]	4	123	0
U.S. Trade and Development Program	37	0	0
Totals[h]	$2,655	$12,751	$8,614

Legend

* = $100,000 or less

[a]Includes salaries of U.S. government personnel who are devoted full-time to export promotion, but excludes those who devote only part of their time to export promotion. Part-time export facilitation personnel are found in several government agencies, including the Departments of State and Transportation. These figures also include net claims paid out under agencies' export loan, credit guarantee, and insurance programs. The figures in several cases include obligations or budget authority because some

agencies were unable to provide outlays. The figures also include grants made to exporters for the purpose of enhancing their export capability, and grants to organizations to study export promotion issues.

[b]Consists of $103.4 million spent by the Commodity Import Program, $1 million spent by the Private Investment and Trade Opportunities program, $0.5 million spent by the Trade and Investment Services program, $0.5 million spent by the Market Technology Access Program, $0.3 million spent by the Private Sector Energy Development Study Fund, and $0.3 million spent by the Trade and Investment Monitoring System.

[c]Consists of $890.1 million devoted to the Export Enhancement Program, $761 million paid out in claims on finance programs, $200 million spent by the Market Promotion Program, $105.5 million spent by the Foreign Agricultural Service, $7.8 million spent by the Office of the General Sales Manager (GSM) to manage the GSM-102 and GSM-103 loan guarantee programs, and $7.3 million spent by the Agricultural Research Service.

[d]Consists of $169.8 million spent by the International Trade Administration, $15.9 million spent by the U.S. Travel and Tourism Administration, $7.6 million spent by the Economic Development Agency, $1.2 million spent by the National Institute of Standards and Technology, $0.6 million spent by the Economics and Statistics Administration on the National Trade Data Bank, and $0.1 million spent by the National Oceanic and Atmospheric Administration.

[e]Consists of $158.4 million in net claims paid out under the agency's export loan, credit guarantee, and insurance programs; $145.4 million of war chest grants; and a $21.7-million budget.

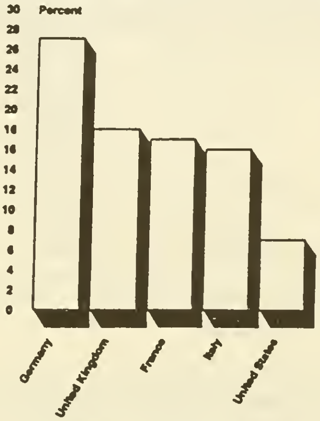
[f]The Overseas Private Investment Corporation is a self-sustaining U.S. government entity whose purpose is to promote economic growth in developing countries by encouraging U.S. private investment in those nations. OPIC activity stimulates U.S. exports as well. The finance and insurance figures for OPIC are overall agency figures, whereas the outlays are for export promotion. The outlays consist of $14.3 million budgeted for salaries and administrative support activities, $3.3 million in recoveries made on its insurance and guarantee programs, and $0.4 million for pre-investment programs.

[g]The export-related loans and loan guarantees shown for SBA are overstated. The amount SBA classifies as export-related loans and guarantees represents all SBA loans and guarantees extended to small businesses that report that they are exporters. Borrowers are not required to use the money for export purposes.

[h]Totals do not add due to rounding and do not include amounts spent by the Departments of State and Defense on export promotion and export facilitation duties. Although Department of State officials told us that commercial duties are an important function of the Department's overseas foreign service staff, especially in the more than 82 posts where the Department of Commerce has no presence, they also told us that the State Department does not have systems in place to measure the amount of staff time spent on this function. Department of Defense officials told us they could not quantify the time spent by the Department's security assistance staff in providing export facilitation assistance to U.S. exporters.

Source: GAO.

Five Countries' Exports as a Percent of Gross Domestic Product, 1990



Source: Organization for Economic Cooperation and Development Main Economic Indica Gross Domestic Product (May 1991).

APPENDIX III

FIVE NATIONAL GOVERNMENTS' OUTLAYS FOR EXPORT PROMOTION PROGRAMS, 1990

Country	Outlays[a] (U.S. dollars[b] in millions)	Outlays per $1,000 exports	Outlays per $1,000 GDP
France[c]	$417	$1.99	$0.350
Germany	93	0.22	0.062
Italy	309	1.71	0.284
United Kingdom	298	1.62	0.305
United States	231	0.59	0.043

Legend

GDP=gross domestic product

[a]In all countries except the United States, the spending includes estimates provided by government officials. Outlays do not include state and local government export promotion spending and are only for "traditional" export promotion activities such as awareness promotion, counseling, information, and trade event programs.

[b]Based on the following conversions using 1990 average exchange rates per U.S. dollar: France--5.7 francs; Germany--1.7 deutsche marks; Italy--1254.3 lire; United Kingdom--0.59 pounds sterling.

[c]In all countries except France, this spending does not include money for agricultural promotion. French officials were unable to separate the agricultural spending from the total but told us that most of this spending is on nonagricultural programs.

Sources: GAO analysis of funding information provided by government officials; and Organization for Economic Cooperation and Development Main Economic Indicators for Gross Domestic Product (May 1991) and Monthly Statistics of Foreign Trade.

APPENDIX IV

FIVE NATIONAL GOVERNMENTS' OVERSEAS EXPORT PROMOTION STAFFING, 1990

Country	Overseas posts	Commercial officers	FSNs[a]	Total staff	Staff per $1 bil. of exports
France	180	100	1,130[b]	1,230	5.87
Germany	50[c]	N/A	N/A	960[d]	2.28
Italy	83	170	580	750	4.14
United Kingdom	185	523	961	1,484	8.05
United States	123	155	460	615	1.56

[a]The United States employs foreign nationals as commercial specialists. They are called "foreign service nationals" (FSN). In other countries, these numbers represent FSN equivalents.

[b]In addition to FSNs, France has a "volunteer" program that provides on-the-job commercial training solely to men as an alternative to military service. In 1990, there were 360 volunteers.

[c]These posts consist only of overseas chambers of commerce offices.

[d]German officials could not provide us with breakouts of commercial officer and FSN equivalents but estimated that in 1990 there were 900 commercial staff in overseas chambers of commerce. Further, the German government employs between 60 and 70 "correspondents" abroad who gather and report commercial information.

Source: GAO analysis of staffing information as provided by government officials and 1991 European Community Economic Handbook.

RELATED GAO PRODUCTS

U.S. Department of Agriculture: Better Management Could Increase Effectiveness of FAS Export Operations (GAO/T-GGD-93-5, Feb. 23, 1993).

Transition Series: International Trade Issues (GAO/OCG-93-11TR, Dec. 1992).

Export Finance: The Role of the U.S. Export-Import Bank (GAO/GGD-93-39, Dec. 23, 1992).

The U.S. Export-Import Bank: The Bank Provides Direct and Indirect Assistance to Small Businesses (GAO/GGD-92-105, Aug. 21, 1992).

Export Promotion: A Comparison of Programs in Five Industrialized Nations (GAO/GGD-92-97, June 22, 1992).

The U.S. Export-Import Bank: The Bank Plays an Important Role in Promoting Exports (GAO/T-GGD-92-36, May 6, 1992).

Export Promotion: U.S. Programs Lack Coherence (GAO/T-GGD-92-19, Mar. 4, 1992).

Financial Audit: Export-Import Bank's 1990 and 1989 Financial Statements (GAO/AFMD-92-6, Feb. 3, 1992).

Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49, Jan. 10, 1992).

U.S. Government Laws, Policies, and Regulations

-- The long-standing federal budget deficit has reduced the availability of funds that, otherwise, could have been used to directly increase investment in plant and equipment and training of workers.

-- The U.S. government has pursued macroeconomic policies that have produced wide fluctuations in exchange rates and interest rates.

-- The U.S. government has lacked a coherent overall trade policy that reflects integration of a governmentwide strategy for promoting exports into the decision-making process.

-- Federal, state, and local governments have not made adequate investment in infrastructure.

-- The U.S. government has sacrificed international commercial objectives to attain foreign policy and national security goals.

-- Several federal laws and regulations, such as those that implement U.S. export control policies and the Foreign Corrupt Practices Act, are seen as barriers to exporting.

U.S. Company Practices

-- U.S. businesses tend to focus more on short-term profits rather than long-term market strategies.

-- The U.S. business community lacks an export culture often found in other industrialized countries, due in large measure to the business opportunities available in the large U.S. domestic market.

-- Some U.S. firms do not exhibit the commitment to quality and customer service needed to compete in the international marketplace.

Other Countries' Policies and Practices

-- Other countries impose, to varying degrees, tariff and nontariff trade barriers that restrict the sale of competitive U.S. goods and services.

-- Some other countries use tied aid--i.e., foreign assistance that is linked to the purchase of exports from the country extending the assistance--that restricts the sale of U.S. goods and services.

B. Provide a list, in priority order, of your recommendations for changes in federal action on trade policy.

Since the end of the Cold War, U.S. trade policy has been given higher priority and greater attention. This new-found focus on international trade has given rise to changes in federal trade policy and several initiatives to strengthen its implementation, particularly in the area of export promotion. Some initiatives have already been set in motion but will continue to require close oversight to ensure their ultimate success. Others are still in the design stage.

This focus on international trade is generally viewed as positive, and there is general agreement that the federal government will continue with these changes. They hold the potential for enhancing U.S. competitiveness and contributing to improved U.S. living standards. As part of this process, the federal government will likely need to address several long-standing issues. While there is no definitive list of recommended changes for government action in trade policy, government and business leaders and analysts have suggested several changes as having the potential to improve federal efforts to promote domestic economic growth through increased trade. We consider each of the following trade policy recommendations to be important; however, as you requested, we have attempted to list them in priority order.

-- Continue the process of elevating economic objectives and trade policy to a level of national importance comparable to that given national security and foreign policy objectives.

-- Strengthen efforts to monitor and enforce foreign government compliance with past trade agreements, through increased efforts by U.S. embassy officials and improved contacts with the American business community, both in the United States and abroad.

-- Better communicate to the American people the importance of using multilateral, regional, and bilateral negotiations to open foreign markets to U.S. competition and expand world trade.

-- Continue the process of reducing unnecessary export controls and other regulatory barriers to exporting.

-- Improve the availability of funds to support exporting by (1) identifying regulatory and other policies that could be used to encourage U.S. banks to increase their export financing without incurring inappropriate levels of risk and (2) improve the effectiveness of federal export financing programs.

-- Focus greater attention on developing a more coherent trade policy that unites export promotion priorities with integrated multilateral, regional, and bilateral trade negotiation strategies.

-- Continue using the Trade Promotion Coordinating Committee (TPCC) as a mechanism for strengthening federal export promotion efforts, including the creation of a governmentwide set of federal export promotion priorities and a unified export promotion budget.

-- Strengthen consideration of the interrelationship between U.S. trade policy and other national objectives, such as addressing environmental concerns and preserving the economic viability of rural America.

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